



January 11, 2006

TO: Transportation Authority of Marin Commissioners

FROM: Dianne Steinhauser, Executive Director

RE: Debt and Investment Policy/Financial Advisor Procurement - Agenda Item 6

Dear Commissioners:

### **Executive Summary**

As envisioned in the Expenditure Plan for the Measure A ½ cent sales tax, TAM will need to borrow on future sales tax in order to pay for the Hwy 101 Gap Closure construction needs, and possibly some element of the Major Roads construction needs as well. In establishing revenue availability for the various strategies in the Expenditure Plan, TAM assumed the cost of debt financing off the top of the sales tax revenue stream. The Hwy 101 Gap Closure project, Segment 4 over Puerto Suello Hill will be ready for construction funding late this Spring. Landscaping for the entire corridor will begin next year as well. Due to the addition of sound-absorbing material on the soundwall, and the multi-use path adjacent to Hwy 101, as well as general construction cost increases to the highway project, the existing state and regional funds for the Segment 4 project will be insufficient to cover the entire updated project cost. Therefore, in order to advertise the project late this Spring, TAM will need to borrow up to \$25 Million in future sales tax revenues. An additional advance of up to \$5 Million may be necessary to construct major roads projects. TAM needs to adopt policy and bring a financial advisor team onboard in order to engage in the necessary debt financing.

TAM currently has financial policies in place, contained in its Administrative Code. However, a thorough debt and investment policy is advisable prior to engaging in formal debt financing. A Financial Advisor needs to be engaged in order to assist TAM in framing policy and effectively manage its debt financing. As envisioned in the TAM Workplan for FY 2005-06, TAM staff are proceeding on the hiring of a Financial Advisor. **Recommendation: Support staff in moving forward on the hiring of a Financial Advisor. ( DISCUSSION ITEM)**

As TAM evolves and establishes itself as a new and independent organization, policies and procedures governing the Authority will continue to be developed. While the collection of Measure A sales tax revenues has resulted in positive fund balances over the past few months, the high capital needs of the Gap Closure project and related noise-absorbing soundwall and multi-use path are likely to require debt issuance. These conditions call for the establishment of an investment policy, a debt policy, and the procurement of Financial Advisory services.

### **Making the Most of Marin County Transportation Dollars**

## **Investment Policy**

The TAM Administrative Code Article VI, Section 106.8 states that “all funds of the Authority will be invested in the manner and upon the conditions set forth in Government Code 53601, and the receipt, transfer or disbursement of such funds during the term of the Agreement shall be accounted for in accordance with generally accepted accounting principles applicable to governmental entities”. To date, TAM’s surplus funds have been invested by the Marin County Treasurer in the Marin County Investment Pool. Interest income has been recorded in the TAM accounts. In July 2004, Fitch Ratings rated the Marin County Investment Pool as AAA/V1+. The AAA rating means the pool meets the highest credit quality standards for underlying assets, diversification, management, and operational capabilities. The pool’s V1+ rating reflects low market risk and a strong capacity to return stable principal values to participants even in severely adverse interest rate environments.

To expand upon the Administrative Code, staff drafted a more detailed investment policy based on California Government Code Section 53600 requirements and a sample investment policy provided by the Government Finance Officers Association. Additionally, investment policies of the San Francisco County Transportation Authority, the Alameda County Transportation Improvement Authority, and AC Transit were reviewed. The draft TAM investment policy is attached for the Executive Committee’s information. A final investment policy will be presented for adoption by TAM following review and input from the County Treasurer’s office and the review by a financial advisor to be engaged by TAM in the coming months. (A discussion of the financial advisor procurement is provided below.)

At present, the Marin County Investment Pool is a safe and efficient means for investing surplus TAM funds. The adoption of an investment policy will not necessarily change the relationship between TAM and the County, as the investments made for the pool are consistent with the proposed TAM investment policy. In the future, should TAM want to change its investment strategy and make investments elsewhere, the policy will apply to those investments.

## **Debt Policy**

The Measure A Expenditure Plan allows for and contemplated that debt would be issued to expedite the delivery of transportation projects and programs and to provide economies of scale. The Gap Closure project and related noise absorbing soundwall and multi-use path will require some form of financing within the next several months. Initial Executive Committee discussions of financial policy questions related to the draft Strategic Plan recognized that, per the Expenditure Plan, approximately \$30 million in debt capacity should be reserved “off the top” for purposes of estimating sales tax availability for Measure A strategies and substrategies. The estimate was prepared based on general assumptions about the type, amount, structure, and interest rate that might be available to TAM for debt financing. As the funding needs for the Gap Closure become more clear, it is likely that debt financing may be needed within the next few months. TAM should adopt a debt policy before debt financing is undertaken.

The debt policy will address the objectives of the policy, restrictions on the amount and type of debt to be issued, the issuance process, and the management of the debt portfolio. Adherence to a debt management policy signals to rating agencies and the capital markets that TAM is well managed and should meet its obligations in a timely manner. An effective debt management policy will provide guidelines to manage the debt program in line with the available resources.

Objectives of TAM’s debt policy shall be to:

- Maximize the use of Measure A cash and other funds to capital projects, thereby minimizing the amount of debt required to deliver projects cost effectively and in a timely manner;
- Maintain cost-effective access to the capital markets through prudent yet flexible policies;
- Moderate debt principal and debt service payments through effective planning and project cash management in coordination with TAM project sponsors; and,
- Achieve the highest practical credit ratings.

Assistance with the development of a debt and investment policy will be one of the first tasks to be completed by a Financial Advisor to be engaged by TAM in the next few months. The debt policy will be presented to the Executive Committee for review and to the TAM Board for approval.

### **Financial Advisor Procurement**

The financial plan for the Gap Closure project and related noise absorbing soundwall and multi-use path relies on multiple funding sources including Measure A funds. Current efforts to swap funds on the project will reduce borrowing costs, but debt financing cannot be avoided. It appears that some sort of debt financing will be required within the next several months. The structure, size, and timing of the debt will be determined with the assistance of a financial advisor.

A Request for Qualifications (RFQ) will be issued by the end of January 2006 soliciting qualified financial advisors for a contract term of three years with an option for (2) one year extensions. A copy of the RFQ scope is attached.

In the near term, the selected financial advisor will assist staff and its consultants with the development of a debt policy, review the draft investment policy, assist with cash flow spreadsheets, determining debt needs and capacity, evaluating debt structures, estimating debt service requirements and issuance costs under various scenarios, and identifying timing of debt issuance. The schedule for bringing the financial advisor onboard is envisioned as follows:

### **MILESTONE SCHEDULE**

Issue RFQ for Financial Advisory Services	January 20, 2006
Written questions on RFQ due to TAM	January 30, 2006
Proposals due to TAM	February 10, 2006
Notify proposers to be interviewed	February 13, 2006
Oral interviews, if required	February 17, 2006
Notify selected proposer; negotiate contract	February 24, 2006
TAM Board approves contract	March 23, 2006

### **Recommendation**

The items presented here are for information and discussion only at this time.

#### **Attachments**

1. Draft Investment Policy
2. RFQ Scope for Financial Advisor

# TRANSPORTATION AUTHORITY OF MARIN

## DRAFT

### INVESTMENT POLICY

#### I. INTRODUCTION

The purpose of this policy is to set forth the scope, objectives, standards of care, authorized financial institutions, permitted investment instruments and parameters, and reporting requirements for all investments made by the Transportation Authority of Marin (TAM).

#### II. GOVERNING AUTHORITY

The investment program shall be operated in conformance with federal, state, and other legal requirements including applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Sections 53600 et seq.), and the TAM Administrative Code, Article VI, Section 106.8.

#### III. SCOPE

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Investment of proceeds from bond issues will be the subject of a separate policy and documents governing the bond issue.

#### IV. OBJECTIVES

The primary objectives, in priority order, for the Authority's investment activities are:

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated.
3. **Return on Investment**: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

#### V. STANDARD OF PRUDENCE

In managing its overall portfolio TAM shall observe the "Prudent Investor Standard" as stated in California Government Code 53600.3. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not

limited to, the general economic conditions and the anticipated needs of TAM, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of TAM.

## VI. DELEGATION OF AUTHORITY

Management's responsibility for the investment program is derived from the TAM Board of Directors and is hereby delegated to the Executive Director for a period of one year. The Board may renew the delegation pursuant to this section each year.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of TAM's funds:

- Executive Director
- Deputy Executive Director
- Finance Manager

All investment documents and cash transfer authorization forms shall be approved by two signature authorities from the above list.

## VII. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to TAM's Conflict of Interest code, employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of TAM's investment portfolio.

## VIII. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Executive Director shall establish and maintain a list of financial institutions and other financial services providers authorized to provide investment services. In addition, the Authority will establish and maintain a list of approved security brokers/dealers, selected on the basis of credit worthiness, that are authorized to provide investment services in the State of California. These include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1. No public deposits will be made except in a qualified public depository as established by state law.

## IX. PERMITTED INVESTMENT INSTRUMENTS

In accordance with and subject to the restrictions in California Government Code Section 53601, TAM may invest in the following type of investments

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies of United States government-sponsored enterprises.
3. Repurchase agreements
4. Obligations of the State of California or any local agency within the state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
5. Bankers' Acceptances issued by domestic or domestic branches of foreign banks, which are eligible for purchase by the Federal Reserve System.
6. Commercial paper of "prime quality" rated the highest ranking or of the highest letter or number rating as provided by a nationally recognized statistical-rating organization.
7. Medium-term corporate notes, defined as all corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S.
8. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California.
9. Negotiable certificates of deposit or deposit notes issued by a nationally or state chartered bank, a savings association or a federal association, a state or federal credit union or by a state-licensed branch of a foreign bank.
10. State of California's Local Agency Investment Fund.
11. Insured savings account or money market account.
12. Marin County Investment Pool.
13. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940.

The maximum percentage share of investments in these instruments as a share of TAM's portfolio and the maximum maturities of investments shall conform with the restrictions in California Government Code Section 53601.

#### **X. INELIGIBLE INVESTMENTS**

In accordance with California Government Code Section 53601.6, TAM shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

## XI. MAXIMUM MATURITIES

In accordance with California Government Code Section 53601, where state law does not specify a limitation on the term or remaining a maturity at the time of the investment, TAM shall not make any investment in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by state law, that at the time of the investment has a term remaining to maturity in excess of five years, unless the TAM Board of Directors has granted express authority to make that investment either specifically or as part of an investment program approved by the Board no less than three months prior to the investment.

## XII. DIVERSIFICATION

TAM shall diversify its investments by security type, institution, and maturity. Diversification strategies shall be determined and revised periodically by the Executive Director and reported to the TAM Board of Directors.

## XIII. SAFEKEEPING AND CUSTODY

All security transactions entered into by TAM will be conducted on a delivery-versus-payment basis. Securities will be held by an independent third party custodian selected by TAM. The securities will be held directly in the name of TAM as beneficiary. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

## XIV. INTERNAL CONTROLS

TAM shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of TAM.

## XV. REPORTING REQUIREMENTS

The TAM Executive Director shall submit a quarterly list of transactions to the TAM Board of Directors. In addition, the Executive Director will submit to the Board an investment report each quarter, which will include, at a minimum, the following information for each individual investment:

- Type of investment
- Institution of Purchase
- Date of Purchase, Maturity Date
- Purchase Price
- Interest Rate, Rate of Return, and Yield

- Par and Book Values
- Overall portfolio yield based on cost

In addition, the investment report shall state compliance of the portfolio with the statement of investment policy and a statement noting the ability of TAM to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

The quarterly report will be submitted within 30 days following the end of the quarter.

## XVI. INVESTMENT POLICY REVIEW

TAM's investment policy shall be adopted by resolution of the TAM Board of Directors. This policy shall be reviewed annually at a regular meeting of the TAM Board. Any modifications to this policy must be approved by resolution of the TAM Board.



## **DRAFT**

### **REQUEST FOR QUALIFICATIONS FOR FINANCIAL ADVISORY SERVICES**

#### **BACKGROUND**

The Transportation Authority of Marin (hereinafter referred to as the "Authority" or "TAM") is soliciting proposals from firms interested in serving as the Authority's financial advisor(s) for the implementation of a local half cent sales tax Expenditure Plan approved by voters in November 2004. TAM is developing a Strategic Plan that will guide the use of the sales tax in compliance with the Expenditure Plan approved by the voters. The Expenditure Plan provides for, and the initial analysis of the funding needs indicate that debt financing will likely be required within the next several months.

The Authority intends to contract with a single firm. The initial engagement will be for three years at the Authority's discretion, with two one-year optional extensions. Negotiations may or may not be conducted with respondents; therefore, the proposal submitted should contain the respondent's most favorable terms and conditions, since the selection and award may be made without discussion with any respondent.

It is the intent of the Authority to award a contract to the best-qualified firm that demonstrates experience in developing financial strategies tailored to the Authority's needs and the structuring of bond financing transactions.

The Authority also reserves the right to reject any or all of the proposals, to investigate the qualifications of all firms under consideration, to confirm any part of the information furnished by a respondent, or to obtain additional evidence of managerial, financial or other capabilities, which are considered necessary for successful performance under the contract.

#### **SCOPE OF SERVICES**

The financial advisor shall provide all of the financial services and any other services necessary to produce a financially sound and cost-effective transaction, study, plan of finance, or other work product as requested for the Authority. The financial advisor may be requested to assist staff in the following areas:

- Prepare a draft debt policy for the Authority that complies with applicable laws and best practices within the industry and addresses financial policies discussed by the TAM Board.
- Assist in the formulation of financing plans, including presentations of alternative financial programs and strategies, taking into consideration appropriate debt structures, timing, impact on tax rates and taxpayers, budgeting, credit ratings, tax laws, and assessment of capital market conditions. Provide recommendations wherever requested.
- Provide creative solutions to funding, financing, investment, cash flow and other monetary challenges.

- Evaluate potential bond issues, refundings, advance refundings, short-term financing mechanisms, leases, derivative products and investment strategies.
- Assist staff in soliciting proposals for bond counsel, underwriter (s), issuing and paying agents, letter of credit providers, liquidity providers, trustees, printers etc., if necessary.
- Work with bond/tax counsel in advance of the publication or sale of any securities to ensure acceptance of the financing structure and the ability of bond counsel to deliver an unqualified opinion and tax certificate to the Authority.
- Assist in the sizing and structuring of bond financings done on a competitive or negotiated basis including: rating agency / investor preparations, timing of sale, callability, maturities, reserve funds, capitalized interest, and other matters which may assist in obtaining the lowest interest cost for the issue.
- Participate in the underwriting selection process, including providing mailing list and overall distribution of a Request for Proposals as well as reviewing underwriting proposals. Negotiate preliminary and final pricing structures and allocations. Act as a liaison between the Authority and the underwriting syndicate.
- Assist in the preparation and review of legal and financing documents in coordination with Authority staff and other relevant parties.
- Provide mailing list and overall management of mailing of the Preliminary Official Statement and Notice of Sale to potential underwriters and investors and manage the production mailing of the final official statement.
- Provide advice, written analysis and assistance regarding the benefits of possible credit enhancements and/or the use of derivative products. Assist in procuring any such credit enhancements and negotiating appropriate fees and terms.
- Prepare written reports before and after pricing indicating market comparables (including gross spread, management fee and takedown comparables) and overall market conditions.
- Serve as the Authority's agent with respect to the pricing of the bonds and minimizing the cost of issuance.
- Provide oral and/or written updates to the TAM Board of Directors and committees.
- Assist the Authority staff in the review of all bond allocations to assure equity among the financing team and assist in the preparation of a written report supporting the bond allocation process.
- Other matters as needed.